

**REPORT OF THE AUDIT OF THE
BOYLE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2010**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BOYLE COUNTY SHERIFF

**For The Year Ended
December 31, 2010**

The Auditor of Public Accounts has completed the Boyle County Sheriff's audit for the year ended December 31, 2010. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$24,403 from the prior year, resulting in excess fees of \$52,475 as of December 31, 2010. Revenues decreased by \$15,920 from the prior year and expenditures increased by \$8,483.

Debt Obligation:

Capital lease principal agreement totaled \$10,018 as of December 31, 2010. Future principal and interest payments of \$10,018 are needed to meet this obligation.

Report Comment:

2010-01 The Sheriff's Office Lacked Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Harold McKinney, Boyle County Judge/Executive
The Honorable Marty Elliott, Boyle County Sheriff
Members of the Boyle County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Boyle County, Kentucky, for the year ended December 31, 2010. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2010, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 27, 2011 on our consideration of the Boyle County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Harold McKinney, Boyle County Judge/Executive
The Honorable Marty Elliott, Boyle County Sheriff
Members of the Boyle County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2010-01 The Sheriff's Office Lacked Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Boyle County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

July 27, 2011

BOYLE COUNTY
MARTY ELLIOTT, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2010

Revenues

| | | |
|---|--------|---------|
| State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF) | \$ | 29,267 |
| State Fees For Services: | | |
| Finance and Administration Cabinet | \$ | 16,884 |
| Cabinet for Health and Family Services | | 270 |
| Waiting On Court | | 48,430 |
| Conveying Convicts | | 3,497 |
| | | 69,081 |
| Circuit Court Clerk: | | |
| Sheriff Security Service | 22,548 | |
| Fines and Fees Collected | 1,818 | 24,366 |
| Fiscal Court | | 11,780 |
| County Clerk - Delinquent Taxes | | 13,525 |
| Commission On Taxes Collected | | 423,252 |
| Fees Collected For Services: | | |
| Auto Inspections | 4,597 | |
| Accident and Police Reports | 315 | |
| Serving Papers | 47,331 | |
| Carrying Concealed Deadly Weapon Permits | 7,605 | |
| Fingerprints | 830 | 60,678 |
| Other: | | |
| Add-on Fees | 38,846 | |
| Election Commission | 360 | |
| Miscellaneous | 3,483 | |
| Sequester Jury | 209 | |
| Telecommunication | 2,025 | 44,923 |
| Interest Earned | | 6,649 |
| Borrowed Money: | | |
| State Advancement | | 252,029 |
| Total Revenues | | 935,550 |

The accompanying notes are an integral part of this financial statement.

BOYLE COUNTY
MARTY ELLIOTT, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2010
(Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

| | | | |
|----------------------------|----|---------|------------|
| Deputies' Salaries | \$ | 304,383 | |
| Bailiff Salaries | | 65,243 | |
| Bailiff Transport Salaries | | 17,032 | |
| Overtime | | 64,550 | |
| KLEFPF Pay | | 24,084 | |
| KLEFPF Overtime | | 6,389 | |
| KLEFPF Retirement | | 7,281 | \$ 488,962 |

Materials and Supplies-

| | | | |
|-------------------------------|--|--------|--------|
| Office Materials and Supplies | | 11,842 | |
| Uniforms | | 5,523 | 17,365 |

Other Charges-

| | | | |
|--|--|--------|--------|
| Conventions and Travel | | 686 | |
| Training | | 2,891 | |
| Postage | | 4,171 | |
| Transport Prisoners | | 2,598 | |
| Bond | | 1,700 | |
| Carrying Concealed Deadly Weapon Permits | | 2,495 | |
| Miscellaneous | | 3,599 | |
| Cell Phones | | 3,536 | |
| Reimbursement | | 11,780 | |
| K-9 Expenses | | 1,819 | 35,275 |

Capital Outlay-

| | | | |
|----------------------|--|-------|--------|
| Office Equipment | | 5,800 | |
| Capital Expenditures | | 9,352 | 15,152 |

Debt Service:

| | | | |
|-------------------|--|---------|--|
| State Advancement | | 252,029 | |
|-------------------|--|---------|--|

| | | | |
|--------------------|--|--|-------------------|
| Total Expenditures | | | <u>\$ 808,783</u> |
|--------------------|--|--|-------------------|

The accompanying notes are an integral part of this financial statement.

BOYLE COUNTY
MARTY ELLIOTT, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2010
(Continued)

| | |
|---|--------------------|
| Net Revenues | \$ 126,767 |
| Less: Statutory Maximum | <u>73,386</u> |
| Excess Fees | 53,381 |
| Less: Training Incentive Benefit | <u>906</u> |
| Excess Fees Due County for 2010 | 52,475 |
| Payment to Fiscal Court - March 14, 2011 | <u>52,475</u> |
| Balance Due Fiscal Court at Completion of Audit | <u><u>\$ 0</u></u> |

The accompanying notes are an integral part of this financial statement.

BOYLE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2010 services
- Reimbursements for 2010 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2010

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BOYLE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent for the first six months and 16.93 percent for the last six months.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 32.97 percent for the first six months and 33.25 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Boyle County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

BOYLE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Boyle County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Lease

The Office of the Sheriff was committed to a lease agreement with Danville Office Equipment for a copier. The agreement requires a monthly payment of \$173 for 60 months to be completed in October 2015. The total remaining balance of the agreement was \$10,018 as of December 31, 2010.

Note 5. State Seized Funds

As of December 31, 2009, the Sheriff had a balance of \$3,348 in the State Seized Funds Account. During 2010, the Sheriff received \$2,508. The Sheriff expended \$4,088 during the year, leaving a balance of \$1,768 as of December 31, 2010. These funds are used to enhance law enforcement activities and not to supplant the Sheriff's normal operating budget; therefore, they are not included as excess fees.

Note 6. Federal Seized Funds

As of December 31, 2009, the Sheriff had a balance of \$15,269 in the Federal Seized Funds Account. During 2010, the Sheriff received \$13,283. The Sheriff expended \$17,971 during the year, leaving a balance of \$10,581 as of December 31, 2010. These funds are used to enhance law enforcement activities and not to supplant the Sheriff's normal operating budget; therefore, they are not included as excess fees.

Note 7. Seized Holdings Account

As of December 31, 2009, the Sheriff had a balance of \$28,728 in the Seized Holdings Account. During 2010, the Sheriff received \$1,781, including interest of \$26. The Sheriff expended \$418 during the year, leaving a balance of \$30,091 as of December 31, 2010. The use of these monies is determined by the court order granting forfeiture funds to the Sheriff's office; therefore, they are not included as excess fees.

Note 8. Undercover Account

In May 2010, the Sheriff opened the Undercover Account with a deposit of \$903. The Sheriff expended \$50 during the year, leaving a balance of \$853 as of December 31, 2010. The use of these monies is to enhance law enforcement activities and not to supplant the Sheriff's normal operating budget; therefore, they are not included as excess fees.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Harold McKinney, Boyle County Judge/Executive
The Honorable Marty Elliott, Boyle County Sheriff
Members of the Boyle County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Boyle County Sheriff for the year ended December 31, 2010, and have issued our report thereon dated July 27, 2011. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Boyle County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2010-01 to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Boyle County Sheriff's financial statement for the year ended December 31, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Boyle County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Boyle County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

July 27, 2011

COMMENT AND RECOMMENDATION

BOYLE COUNTY
MARTY ELLIOTT, SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2010

INTERNAL CONTROL - MATERIAL WEAKNESS:

2010-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

Segregation of duties over receipts and disbursements is essential for providing protection to employees in the normal course of performing their duties and can also help prevent inaccurate financial reporting and/or misappropriation of assets. When the number of staff is limited due to budgetary constraints, implementation of compensating controls can help mitigate risk.

A lack of segregation of duties exists over the receipt and disbursement functions of the Sheriff's office because a limited number of employees is available to properly segregate these job duties. The bookkeeper is responsible for taking payments from customers, issuing receipts, preparing the daily checkout sheet and bank deposit, posting to the receipts ledger, and balancing the bank statement. It was noted during discussions that a second employee always recounts the deposits and initials the deposit slip; however, the bank statements did not have copies of the deposit tickets, so the initials could not be viewed. The bookkeeper is also responsible for writing checks for all expenditures, posting to disbursement ledgers, and balancing the bank statement. The bookkeeper does not sign any checks.

To adequately protect employees in the normal course of performing their duties, and/or prevent inaccurate financial reporting or misappropriation of assets, we recommend the Sheriff separate the duties involving collection of cash, deposit of cash, disbursement of cash, preparation of monthly reports and journals, and reconciliation of the bank statement to the ledgers. If, due to a limited number of staff, that is not feasible, strong oversight over those areas should occur and involve an employee not currently performing any of those functions. Additionally, the Sheriff could also provide the oversight. The individual providing this oversight should initial source documents as evidence of this review.

Sheriff's Response: Deposits are taken to bank by Sheriff and Chief Deputy. The Sheriff initials deposit slips. Called bank for proof. Unable to get copies. Sheriff reviews AC-28 reports monthly and all quarterly reports. Customer payments are taken by all office employees.

